

**FOR  
AGENDA**

SM/14/139  
Supplement 1  
Correction 1

June 16, 2014

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Zimbabwe—Staff Report for the 2014 Article IV Consultation—  
Informational Annex**

The attached correction to SM/14/139, Supplement 1 (6/3/14) has been provided by the staff:

**Typographical Error**

**Page 7, paragraph 3, bullet 3, line 6:** for "In March 2013" read "In March 2014"

Questions may be referred to Mr. Fanizza (ext. 34069), Mr. Slavov (ext. 36983), and Ms. Morgan (ext. 37798) in AFR.

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## WORLD BANK—IMF COLLABORATION

1. **The Fund Zimbabwe team led by Mr. A. Cuevas (mission chief)** met with the World Bank Zimbabwe team, led by Mr. N. Lenneiye (country manager) on March 17, 2014.

2. **The teams were encouraged by the policy dialogue with the new government, and agreed that strong policies and reforms are needed to unlock Zimbabwe's growth potential and place the country on a sustainable, inclusive growth path.** Over the near to medium term, reforms need to be focused on strengthening public financial management, improving payroll and human resource management, raising the productivity of government expenditure, reducing financial sector vulnerabilities, tackling infrastructure bottlenecks, and improving the business environment. In addition, addressing Zimbabwe's debt overhang and enhancing governance will be essential if the country is to attract much-needed investment and access affordable long-term capital.

3. **Based on this assessment, the teams agreed to support the authorities' efforts with the following division of labor:**

- **PFM reform:** The Fund will continue its engagement with the Zimbabwean authorities in their effort to advance the fiscal reform agenda and restore fiscal sustainability. The Fund will offer TA in: (i) macro-fiscal forecasting and budgeting to develop and implement a strategy for an improved medium-term expenditure framework; (ii) cash management, accounting, and fiscal reporting; (iii) improving fiscal oversight at the general government and public sector levels, including SOEs; and (iv) revising the legal and regulatory framework for PFM. The Bank will continue supporting the government in implementing the findings of the Country Integrated Fiduciary Assessment and the Country Procurement Assessment Report. Specifically, the Bank will: (i) expand (to phase II) its TA to strengthen the computerized PFM system and enhance its functionality; (ii) support strengthening of the legal framework for PFM to increase compliance; and (iii) provide TA to strengthen and decentralize public procurement.
- **Tax reform:** The authorities have made progress on tax reform. The Fund will continue to offer TA in tax policy and tax administration reform, including in the areas of risk management and post control audit.
- **Diamond sector reform:** The lack of transparency in the diamond sector is a major concern, reinforced by the significant underperformance of diamond revenue in the last two years. Based on the 2012 diagnostic Fund TA mission on AML/CFT standards in the diamond and precious metal sectors, the Fund developed detailed recommendations to increase transparency and revenue collection. The Bank is providing initial technical support for improved management of the mineral sector. In March 2014 the Bank launched a project on fiscal modeling and capacity building for mining with the Ministry of Mines and Mining Development (MoMMD) and the Ministry of Finance and Economic Development (MoFED). The Bank will provide TA aimed at optimizing diamond development, and a better understanding of different fiscal and ownership systems, including production-sharing agreements.

- **Delivery of basic services and social safety nets:** The Bank delivered TA to support preparation of the 2014 budget, and prepared a series of short policy notes in support of the socio-economic recovery. The Bank is implementing the second phase of a results-based financing program for maternal and child health, and a public works rapid social response program. Analytical support is being provided for a safety nets tracking survey, a health financing issues note, and the design of a social transfer framework. A safety-net pilot program will be launched in late-2014, in the context of a new programmatic trust fund, currently under preparation. The IMF will continue to provide policy advice and TA support to the budget preparation.
  - **Business environment reform:** The Bank has completed a micro-small-medium enterprise survey, a trade and integration diagnostic study, and has launched the second phase of a trade facilitation assessment. The Bank/IFC provided the government with an updated Doing Business Reform Memorandum, and has responded to the government's request for knowledge sharing on Special Economic Zones.
  - **Financial sector reform:** Financial sector vulnerabilities persist, despite ongoing efforts to enhance the financial regulatory framework. There is a need to further strengthen banking supervision and make it more proactive. Fund staff will continue to provide TA to: further strengthen the legal and regulatory framework, enhance risk-based supervision and solvency stress testing, and help to develop a strategy for addressing the high levels of nonperforming loans in the financial sector. The Bank has finalized the FINSCOPE survey to assess access to finance. The IFC is launching advisory services on a credit reference bureau.
  - **Central bank reform:** The authorities are implementing plans to recapitalize the Reserve Bank of Zimbabwe (RBZ), thereby paving the way for resumption of such core functions as banker to the government and establishment of a lender-of-last-resort facility. The Fund will offer additional TA in governance and central bank accounting and financial controls.
  - **Reform of the statistical system:** The Bank assisted ZIMSTAT in developing a poverty report and starting poverty mapping. The Fund will continue to offer TA in national accounts, monetary statistics, and government finance statistics.
  - **Debt and arrears strategy:** In the context of the 2014 Article IV Consultation, Bank and Fund staffs produced a joint DSA, and are carrying out a joint loan-by-loan debt reconciliation exercise.
  - **Poverty Analysis and Poverty Reduction Strategy:** The Bank provided technical guidance to analyze the 2011 household survey data and produce a poverty report. The Bank will deliver TA to support the preparation of a poverty reduction strategy as part of the implementation of Zimbabwe's development agenda (ZIM ASSET).
4. **The teams agreed to the following sharing of information:**
- The Fund team requests to be kept informed about the timing of Bank missions and about progress in the above macrocritical structural reform areas. The Fund team also requests from the Bank team to share outputs, as requested.